

VZCZCXYZ0000
OO RUEHWEB

DE RUEHKT #0884/01 0931142
ZNY CCCCC ZZH
O 031142Z APR 06
FM AMEMBASSY KATHMANDU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0974
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 4132
RUEHBY/AMEMBASSY CANBERRA PRIORITY 0336
RUEHLM/AMEMBASSY COLOMBO PRIORITY 4402
RUEHKA/AMEMBASSY DHAKA PRIORITY 9485
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2378
RUEHLO/AMEMBASSY LONDON PRIORITY 3786
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 9472
RHEFDIA/DIA WASHDC PRIORITY
RHHMUNA/CDR USPACOM HONOLULU HI PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L KATHMANDU 000884

SIPDIS

SIPDIS

DEPT FOR SCA/INS

E.O. 12958: DECL: 04/03/2016
TAGS: [ECON](#) [EFIN](#) [PTER](#) [PGOV](#) [PREL](#) [NP](#)
SUBJECT: FINANCE MINISTER DISCUSSES SHAKY LOAN

REF: A. KATHMANDU 637

[1](#)B. KATHMANDU 665
[1](#)C. KATHMANDU 676

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d).

Summary

[1](#)1. (C) On March 31, the Ambassador and International Monetary Fund (IMF) Resident Advisor Sukhwinder Singh met with Minister of State for Finance Roop Jyoti to urge His Majesty's Government of Nepal (HMGN) to refrain from proceeding with a shaky loan deal (ref A). Jyoti stated that he "heard" our concerns, but asked us to understand HMGN's pressures, and lack of options. Jyoti said Nepal could take precautions to ensure that the loan was genuine, but noted that HMGN needed money, especially as India's four percent additional customs duty was crippling export industries. Thus, Jyoti claimed, he was forced to seriously consider the loan, though he appeared sobered by the Ambassador's message.
End Summary.

IMF Also Urges HMGN Not To Pursue Shaky Loan

[1](#)2. (C) On March 31, the Ambassador and International Monetary Fund (IMF) Resident Advisor Sukhwinder Singh met with Minister of State for Finance, Roop Jyoti, to urge His Majesty's Government of Nepal (HMGN) to refrain from proceeding with the shaky loan deal that Jyoti first outlined to the Ambassador on March 8 (ref A). Instead of HMGN pursuing this and other private loans of dubious origin, Singh urged HMGN to work with multilateral donors, such as the World Bank (WB) and Asian Development Bank (ADB) to obtain necessary funds. (Note: Jyoti informed us an Australian-based organization had also approached HMGN to offer a similar loan. End note.) Singh noted that a country with Nepal's level of income should not borrow on commercial terms. However, HMGN could talk with IMF about ways to raise economic growth and lower debt, which in turn would lead to access to more money from the WB and ADB.

Minister Hears Caution, but...

13. (C) Stating, "you are friends, you give good advice, you have hesitation; I hear you," Jyoti promised he would "try to deal with this the proper way," but asked the Ambassador and Singh to "please understand" the situation of Nepal. Saying he did not want HMGN to lose face over the loan, or to jeopardize future generations of Nepalis, Jyoti explained that having good relations with bilateral and multilateral donors was important for Nepal. He stated, "if you feel it is not worth the risk, then we can drop it." Jyoti commented that it was possible that nothing would come of the loan proposal. However, he stated that Nepal could make good use of the money. He explained that the best way to ensure the loan was above board was to be open and involve bilateral and multilateral donors. He also acknowledged that he did not want future generations of Nepalis to be trapped into paying for a loan that the government had not used properly and responsibly, including the possibility that future governments could misappropriate the loan money.

...Argues Precautions Can Safeguard HMGN on Loan

14. (C) Jyoti stated that HMGN could put conditions on the loan and trap those involved if the money was later found to be tainted. He acknowledged that the people offering the loan had no track record and no background, and were only acting as agents for non-resident Indians. However, he noted that the people offering the loan had assured him that they would pass scrutiny. Jyoti explained that the Central Bank would hold the original loan guarantee document, and would only pass it to the loaners once the Central Bank received the money, and the loaners had identified themselves and had passed scrutiny. HMGN would hold the three agents involved, two Indians and one Nepali, in custody until the loaners passed scrutiny.

HMGN Needs Money for Security

15. (C) Jyoti stated that HMGN was "not getting what we need" from other sources of financing and that HMGN was "squeezed at all sides and from all angles." He pointed out the impracticality of certain multilateral donor conditions, such as pursuing bank defaulters, that made it difficult for HMGN to pursue other means of getting money. (Note: Pursuing willful defaulters is one of the World Bank's four conditions related to the Poverty Reduction Support Credit (PRSC). Jyoti had told a March meeting of bilateral and multilateral donors that HMGN was moving forward with measures that would resolve long-standing donor concerns about the integrity of Nepal's banking system (ref C). End note.) He also commented that the Maoists were closing down the country, causing economic growth and revenue to decline. Maoist extortion and kidnapping were making people poorer. He highlighted Maoist action forcing industries to sign unsustainable "workers' agreements" that promised not to fire people and to increase wages. He noted that past governments had acted irresponsibly in not planning to alleviate the current power crisis (ref B), which also hurt the economy. He stated that he did not want to be responsible for "something like the current power crisis," and wanted to ensure that Nepal had access to money as an "option for the future," referring perhaps to a possible future in which multilateral donors would not lend to Nepal. Jyoti stressed that Nepal's urgent need was for money for security, as even development projects needed security or the money would end up going to the Maoists. However, the international community would not give or lend money to Nepal to enact needed security measures, he complained. Jyoti concluded that, given the pressures and lack of options, HMGN needed to seriously consider the loan.

Ambassador Again Cautions Loan Is A Bad Idea

16. (C) The Ambassador again explained that all indications

were that this loan was not bona fide. He noted that the front people were insignificant, but clean, and that we were finding it difficult to unravel who was behind the loan. He stated that the front company did not have a track record or assets comparable to the size of the loan. Together, all indications were that the loan was not legitimate and should be avoided, he advised. He stressed that the US felt strongly that HMGN should not go forward with the loan. Singh reiterated that HMGN should consult with multilateral donors to pursue multilateral sources of funding.

Indian Additional Customs Duties Hurting

17. (C) Jyoti lamented that India had suddenly initiated a four percent across the board additional customs duty (ACD) as of March 1. As the Indian Finance Minister had not taken Jyoti's call on March 30 or 31, Jyoti concluded that India wanted to "let Nepal face an economic crisis." Jyoti explained the importance of India as a market for Nepal's exports, and noted that any legal action by Nepal through Indian courts or through the World Trade Organization would take years and cost too much for Nepal to afford. Jyoti noted that the four percent ACD was the make or break margin for many industries. He added that if the export sector of the jute industry alone was forced to close then over 20,000 people would be out of work. There was no doubt in Jyoti's mind that those people would go out on the streets to protest, thus "crippling the government" if India continued to charge the additional customs duties.

Comment

18. (C) Jyoti obviously wants to pursue the loan for all the reasons he outlined. That said, undoubtedly he heard our clear warning. The Deputy Governor of the Central Bank, who also attended the meeting, also appeared to have strong reservations about pursuing the loan.

MORIARTY